Testimony to The US Senate Committee on
Health, Education, Labor and Pensions

March 6, 2008

Unemployment in a Volatile Economy:
How to Secure Families and Build Opportunity

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Good morning Mr. Chairman and distinguished members of the Committee. Thank you for the opportunity to speak today. On behalf of Governor Eliot Spitzer, as New York State's Commissioner of Labor, I am pleased to give our state's perspective on unemployment in this volatile economy and its effects on families and workforce opportunities.

These issues are critically important not just to our state, but to workers and businesses throughout our country. Although New York is not facing unemployment rates as high as some states, such as Michigan and Mississippi, our rates have jumped significantly in the last year. For example, New York City, which has been the growth engine in our state, saw its unemployment rate increase 16% — from 4.9% a year ago to 5.7% in January 2008. The state rate as a whole rose to 5.0% compared to 4.4% a year earlier.

Mr. Chairman, I want to immediately express the support of Governor Spitzer and our state for Senate Bill 2544, your bill to provide emergency extended unemployment compensation; as well as for Senate Bill 1871, the Unemployment Insurance Modernization Act.

<u>Need for Extension of Unemployment Insurance Benefits</u>

I would also like to note that there is growing concern and evidence nationally that the economic climate is deteriorating and there is an increased risk of a recession — some economists contend our country is already in one. So we need to act now.

An extension of UI benefits during a downturn is a particularly effective economic stimulus because the benefits are both well-targeted — to areas and industries most affected by economic slowdowns — and are temporary. It puts money into the hands of those who need assistance the most and are most likely to spend it immediately on basic essentials. Money invested in extended benefits flows immediately to local businesses, which in turn provides a further economic boost.

Although extended UI benefits have been provided in every recession in recent decades, the case for them is especially strong now, before economic conditions deteriorate to that level.

As job growth sputters, it is likely that the percentage of "long-term unemployed" workers who exhaust benefits (26 weeks, the maximum number of weeks regular UI benefits are available in most states) and continue to search for work will continue to rise. In fact, the percentage of long-term unemployed is considerably higher now than it was at the start of the last recession (18.3% in January 2008, compared with 11.1% in March 2001).

In 2007, more than 35% of UI beneficiaries exhausted their benefits. This year, an estimated *three million workers* will go without any additional federal Unemployment Insurance when their 26 weeks of jobless benefits expire. (NELP, 2/12/08).

In New York State, we saw a 10% increase in the number of new UI beneficiaries during the last 12 months. This rising number of laid-off workers is one of the many ways we are currently feeling the effects of a worsening economy.

Our manufacturing sector has been hardest hit, with a loss of 17,000 jobs over the last 12 months. The credit crisis that spread throughout the country has also impacted our state with the loss of 5,400 jobs during the last year. Thousands more jobs have also been lost as the effects of the nationwide housing slump have rippled through many industries.

An extension of benefits will put high-velocity dollars into the hands of families that will spend them quickly, providing an immediate boost to consumer spending. The 20 weeks of emergency benefits proposed in Senate Bill 2544 would infuse more than $900 million directly into New York State's economy in the first year.

Studies reveal that for each dollar in cost, an extension of unemployment benefits generates $1.64 to $1.73 in increased activity. So, each dollar invested in benefits to out-of-work Americans leads to an investment in their local economies well beyond the initial cost. The Congressional Budget Office agrees: its report on short-term economic stimuli found that extending unemployment benefits is among *the most cost-effective, potent, yet temporary steps that Congress can take to jump-start our economy*.

In each recession since the late 1950s, Congress has provided extended unemployment benefits. But as I stated before, although we are presently only dealing with *concerns* of a possible recession, it is critical that Congress act now.

The last time the economy reached a recessionary level, national unemployment grew by 2.7 million from December 2000 to March 2002, yet failed to trigger the federal/state extended benefit program authorized by current law. Congress finally enacted a special program of additional benefits — Temporary Extended Unemployment Compensation — in March 2002, four months after the recession officially ended. The belated response compromised the effect of the program, and three million workers ran out of benefits before the federal program was enacted. As a result, the economy took longer to improve. Given the potential for a prolonged economic decline, we urge you to provide this economic stimulus immediately.

This vital extension of UI benefits can be paid for without imposing new taxes, by tapping into the existing federal unemployment trust fund, which is now at the sizable balance of $38 billion.

I would also like to commend Senator Murray and support her proposal to include a Summer Jobs component in the economic stimulus package. Summer jobs funding could be used immediately this summer by cities and counties to hire thousands of youth in a variety of jobs, which will directly benefit their neighborhoods. Historically, youth have among the highest unemployment rates, and we know that with youth these will certainly be "high velocity" dollars.

<u>Unemployment Insurance Modernization Act</u>

In addition to extending benefits, we urge Congress to close the gaps in the UI system, which leave only an *estimated 36% of unemployed workers* actually collecting these benefits. The decrease in the share of unemployed workers receiving benefits, from a 50% share in the 1950s, has weakened the program's ability to act as an economic stabilizer and to help unemployed workers from all income levels. In fact, a 2007 GAO report noted that *low-wage workers are twice as likely to be out of work as higher-wage workers, but only one-third as likely to get benefits*. The GAO found this inequity was at least partly due to UI eligibility rules, particularly rules in many states that prevent jobless workers from accessing needed benefits.

Again, Mr. Chairman, we support Senate Bill 1871, the Unemployment Insurance Modernization Act. Your bill, similar to the one already passed in the House as a part of the Trade Adjustment Assistance Act Reauthorization, would help close this gap by making an estimated half-million more low-wage and part-time workers eligible for unemployment benefits. We encourage you to link your bill to TAA Reauthorization, or pursue other rapidly moving legislation.

The UI modernization proposal ties distribution of funds to various changes in state law to broaden eligibility for unemployment insurance benefits. This is of critical importance.

The dramatic structural change in our economy is transforming the application of unemployment benefits from what was once a temporary support system during a brief disruption between similar jobs, into a financial bridge for workers facing a dramatic break from one industry or career — often blue collar — to an entirely new industry or career. This is especially apparent in the manufacturing industry.

The UI system is woefully inadequate to provide that financial bridge, when so many workers need income and retraining assistance for new careers. Unemployed individuals who may otherwise be ineligible for assistance would benefit from UI modernization, directly affecting single parents, females and low-wage workers, among others.

Your proposed UI Modernization bill uses incentive payments to encourage states to update their UI systems, providing rewards to states for: (1) removing barriers that block coverage for low-wage and part-time workers; (2) ensuring a more family-friendly UI system; and (3) helping dislocated workers increase their skills. It also provides funding to states to upgrade the administration of their UI systems.

This Act would give states the resources and flexibility they need to pass important reforms. Each state would have a chance to receive a share of the set-aside for incentive payments. To receive <u>one-third</u> of its allotted funds, a state must adopt an "alternative base period," allowing workers to meet eligibility requirements by counting their most recent wages. States will receive the additional <u>two-thirds</u> of their share of funds by adopting two of five reforms that benefit workers.

While New York's law currently conforms to most of the "modernized" UI program elements in the draft legislation, we cannot ignore the increased workload that has accrued to the states in delivering unemployment insurance in a modern, seamless manner while UI administrative appropriations have continued to decline.

<u>Need for Sufficient Unemployment Insurance Administration Funding</u>

The UI administration appropriation is provided from employer tax revenues collected under the Federal Unemployment Tax Act (FUTA). These federal FUTA accounts remain high, with an estimated $38 *billion* currently available to support UI program operations. Despite this balance, there has been a historic disinvestment in federal UI Administration funding. Since 2003, all states have submitted detailed justifications supporting increases in UI administration funding, to no avail. For Fiscal Year 2008, states submitted documented fiscal needs of $2.9 billion for base workload needs, while the enacted appropriation for UI administration was only $2.45 billion — representing a shortfall of $450 million. For Fiscal Year 2009, the President proposed an increase from $2.4 billion to $2.5 billion for UI State Administration. However, this level will not be sufficient to address current shortfalls, or to reverse the trend of raising state appropriations to fund federal UI administration shortfalls.

The impact of this continued disinvestment on New York State has been a 27% decline in the number of UI administration employees since 2003. We are not alone. As a result of insufficient appropriations, three quarters of the states, including New York, have had to appropriate state resources to fill the federal void. They cannot continue to do this in the face of weak state budgets. For instance, New York State faces a $4 billion budget gap for the next fiscal year.

For the current Federal Year 2008, the United States Department of Labor has already advised states that there is insufficient funding to reimburse them for UI administration spending. The current shortfall is projected to be $110 million (and this does not include the shortfalls currently addressed with state resources). While a funding gap of $110 million seems small in a multi-billion dollar program, this unfunded gap translates into an estimated 400,000 average weekly payments for which states will not receive any administrative monies. (*Source: NASWA Appropriations Letter, 2/27/08*.)

Despite a legal obligation to reimburse states for costs incurred to administer the UI system, all states were recently advised that, as a result of the $110 million shortfall, only 32% (or $.32 on the dollar) would be available to address administrative needs resulting from the workload escalating beyond original estimates. While there is a trigger mechanism in the appropriation bill to release additional funds when claims exceed a certain base level, that trigger, as calculated by the Congressional Budget Office, was set too high in relation to the funding that was appropriated.

We urge you to immediately address the insufficient 2008 appropriation, either by the issuance of additional UI State Administration funds, or by lowering the trigger in the appropriation law. Congressional actions will provide much-needed, immediate fiscal relief to states while ensuring the continuity of quality services to our UI customers.

Inadequate Funding for a Globally Competitive Workforce

In addition, there is a serious need to provide substantial training and education services to our nation's workforce — particularly to the unemployed.

As you know, a secondary education was adequate for attaining a good-paying job in the 20^{th} century, but it is simply not sufficient today, when 67 percent of all new jobs require some form of post-secondary training. The skills of America's workers must increase to compete in an increasingly global marketplace if our high standard of living is to be maintained. Unfortunately, however, our nation is investing a mere fraction of what others countries are spending, particularly on part-time and adult students, as well as on current workers.

To see how investment in an educated workforce pays off, we only have to look "across the pond" to Ireland. Ireland has gone from being one of the poorest European nations to one the richest, largely because of its workforce. It has paid Irish workers for up to two years of college tuition since 1996. I just returned from there yesterday, and I have seen how the transformation in Ireland's workforce, and consequently in its economy, has been nothing short of remarkable. England has a similar postsecondary program. When we look at China and India, we see that their investments in education and training have transformed their economies.

As we face this intensifying global competition, a serious, if not baffling, disconnect is growing. We are witnessing a systematic disinvestment in workforce training.

We simply cannot continue to talk about America remaining as a leading world economic power in the 21st Century when you contrast our disinvestment in our workers with the extraordinary investment our key competitors around the world are making in their workers. Again, it is the investments in our human capital that have made this nation a success in the past, and it is necessary to make those investments again.

Consider that 30 years ago, in 1978, the federal government spent $9.5 billion on job training. Adjusting for inflation, we would have to spend $30 billion today to provide the same level of funding. Instead, national funding for the Workforce Investment Act programs is now only $3.3 billion. The President's 2009 budget calls for yet another $1.2 billion in cuts, including the complete elimination of Wagner-Peyser Act employment services and almost a half a billion dollars more in cuts to WIA Title I programs.

In New York, the impact of these dwindling funds is taking a serious toll on our ability to provide quality employment and training services at a time when demand is increasing due to rising unemployment.

The Workforce Investment Act and the Employment Service programs serve as the foundation for New York's workforce development system. Since the WIA programs were created in 2000, New York's share of funding has been cut by more than half — from over $300 million to a projected $136 million in Fiscal Year 2009. In contrast, if New York's share of nationwide funding in 2000 had held steady and kept pace with inflation, the state would receive almost *triple* this projected amount, or approximately $381 million in 2009. We could serve or train another 122,000 workers.

Further, the President's proposal to eliminate the Employment Service would disrupt critical job search and career counseling services for the unemployed.

In New York, the Employment Service continues to be the critical link between the UI customer base and the One-Stop Career Center system. Unemployment insurance claimants represent more than 60% of the One-Stop system customers. This ready talent pool provides the system's greatest asset to employers in need of workers. While the U.S. Department of Labor downplays the value of the Employment Service, their own performance reports show that Employment Service programs continue to bring the largest number of customers into the One-Stop system. Nationally, the Employment Service has served nearly 12.4 million workers, with New York accounting for 15% of that total.

In addition, as I testified last July before the House Committee on the Budget, the Re-employment Eligibility Act (REA) grant is an example of a program that maintains a strong linkage between the Employment Service and the Unemployment Insurance program.

Our REA grant focuses on scheduling UI customers early and often with an employment counselor throughout their UI claims. This personal service ensures that customers continue to meet UI eligibility and work search requirements, and have access to the vast array of services available through the One-Stop system.

The results of our pilot program exceeded our expectations. We achieved a two-week reduction in the average duration of UI benefits, when compared to a control group. Based on an average of 3,000 annual participants, a two-week duration reduction at an average weekly benefit rate of $278 would result in New York UI Trust Fund savings of approximately $1.67 million. That's a gross return on investment of over 250%.

It has been our desire to move REA to a systemic approach throughout our 33 local areas. However, the lack of federal support has prevented us from implementing it statewide.

We are proud of our success with REA. However, it is important to note that the key to the success of the REA model is built on the relationship with the WIA One-Stop Career system. Therefore, the success of REA is contingent upon there being sufficient re-employment services available through the local workforce system — WIA *and* Employment Services — to serve the UI population.

One way to ensure this is to reinstate funding for Employment Services, reauthorize WIA, and adequately fund workforce programs at a level that will ensure consistent and positive outcomes for the unemployed and for incumbent workers who need to upgrade their skills. It is also important to support the reauthorization of Trade Act Assistance in the Finance Committee.

The bottom line is that the United States, and New York State, need a world-class workforce to be successful in today's global economy, and we cannot succeed without adequate investment.

Other countries — our global competitors — understand this dynamic and are making workforce investments that we simply are not. The consequences of not doing so will begin to seriously compromise America's competitive position in the international marketplace.

At a time when our economy is facing a downward swing, it is up to all of us to reverse the current and disturbing trend that ignores the needs of our unemployed and slashes the vital training funds necessary for our workers to compete globally. We need to learn from the last time our economy faced an economic downturn, and how our delayed response resulted in millions of workers without extended benefits. We need to look at the success of global economies and how their investment in workers has paid dividends in reducing unemployment and increasing their global competitiveness.

Those in need are looking to us to act now — and I hope that the State of New York's support of these bills and funding needs will assist your efforts as you continue your deliberations.

One vote does make a difference. Governor Spitzer and I urge the Senate to try again to help unemployed workers and help stimulate the economy.

Once again, I thank you for the opportunity to provide a state perspective on these important issues, and I welcome your questions.